

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Davison	County Genesee
Audit Date 6/30/04	Opinion Date 8/18/04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature <i>Legacy Haw Jurg</i>		ZIP 48502	Date

Annual Financial Report

**Davison Township
Genesee County, Michigan**

June 30, 2004

with *Independent Auditors' Report*

**Davison Township
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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**Davison Township
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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Introductory Section

**Annual Financial Report
Davison Township
June 30, 2004**

List of Elected Officials

Kurt Soper	Supervisor
Linda Harrison	Treasurer
Karen Miller	Clerk
Julie Brandon	Trustee
Matt Karr	Trustee

Financial Section

Independent Auditors' Report

The Honorable Members
of the Township Board
Davison Township
Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of Davison Township, Michigan (Township) as of June 30, 2004, and for the year then ended, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I.B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Davison Township, Michigan at June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 8 and the information in the required supplemental information section on pages 36 and 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davison Township's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script, reading "BKR Dupius & Ryden".

Certified Public Accountants
Flint Office

August 18, 2004

Management's Discussion and Analysis

Davison Township Management's Discussion and Analysis

This section of the Davison Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Township's financial statements, which follow this section.

First Year - Governmental Accounting Standards Board Statement No.34

Davison Township is implementing the new Governmental Accounting Standards Board Statement No.34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year Davison Township is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require Davison Township to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. Davison Township will present a comparative analysis of government-wide data in future years when prior-year information is available. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

Financial Highlights

- The Township's Total Net Assets are \$21.8 million unrestricted net assets were \$13.5 million.
- During the year, the Township's expenses were \$690,000 less than the \$2,665,000 generated in taxes and other revenues for governmental programs.
- General fund revenues exceeded expenditures by \$211,670.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
 - * The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - * Proprietary fund statements offer short- and long-term financial information about the water and sewer system that the government operates like a business.
 - * Fiduciary fund statements provide information about the financial relationships where the Township acts as an agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Davison Township's
Government-wide and Fund Financial Statements
Fund Statements**

Type of Statements	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire Township government (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary, such as police, fire, and parks	Activities the Township operates similar to private businesses: the water and sewer system	Instances in which the Township is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Agency funds statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Increases and decreases to assets and liabilities

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets – the difference between the Township's assets and liabilities – is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities – Most of the Township's basic services are included here, such as the police, fire, public works, parks, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system is the only business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds – not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds – Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has only one governmental fund, the General Fund.
- Proprietary funds – Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Water and Sewer Fund.

- In fact, the Township's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary funds – The Township is the fiduciary, for assets held on the behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$9.4 million. The unrestricted governmental activities net assets are \$7.3 million. Business-type activities net assets are \$12.4 million with \$6.2 million being invested in capital assets net of related debt.

Governmental Activities

The Township's General Fund revenues excluding other financing sources were \$4.9 million this year. Property taxes were \$1.0 million or 20.4% of the total revenues. Federal grants and State revenue sharing made up \$1.5 million or 30.4% of the total revenue. Special assessments for capital improvements and garbage service were \$1.5 million (31.5%). The remaining 17.7% of General Fund revenues are comprised mostly of Charges for Services and Interest Revenue.

Business-Type Activities

Operating revenues of the Township's business-type activities increased \$185,000 from the prior year of \$2,142,396 to the current year total of \$2,327,501. Operating expenses increased by \$179,793. The major factors contributing to the increase was a \$193,684 increase in sewer treatment fees and water purchases. Net changes from non-operating activities increased from revenue of \$340,800 to a revenue of \$521,222, due mainly to an increase in tap-in fees.

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$7.2 million. This was an increase of \$211,670 from the prior year.

Capital Assets

At the end of 2004, the Township had invested \$8.06 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed smaller units of government like Davison Township to report infrastructure assets on a prospective basis after adopting the new reporting standard.

Long-term Debt

At year-end the Township had \$620,000 in bonds and notes outstanding for water and sewer activities. Annual debt service requirements for business-type activities debt will increase \$172,000 over the next four years, with final payment due in 2008.

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$43.1 million. The Township's water and sewer is exempted from consideration in the 10% limit computation.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Davison Township Clerk's Department.

Financial Statements

Government-wide Financial Statements

Davison Township
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,323,214	\$ 6,355,766	\$ 9,678,980
Investments	3,438,268	-	3,438,268
Receivables:			
Accounts	4,787	113,333	118,120
Accrued interest receivable	15,155	14,835	29,990
Special assessments	358,448	-	358,448
Water and sewer tap-ins	-	124,011	124,011
Unbilled receivable	-	441,134	441,134
Due from other governments	283,733	-	283,733
Internal balances	393,775	(393,775)	-
Restricted cash and cash equivalents	-	688,400	688,400
Capital assets (net of accumulated depreciation)	1,825,685	6,859,332	8,685,017
Total assets	9,643,065	14,203,036	23,846,101
Liabilities and Net Assets			
Liabilities:			
Accounts payable	141,128	12,060	153,188
Deposits	42,265	1,656	43,921
Due to other governments	20,000	344,678	364,678
Contractor advances	-	797,487	797,487
Noncurrent liabilities:			
Due within one year	-	155,000	155,000
Due in more than one year	-	465,000	465,000
Total liabilities	203,393	1,775,881	1,979,274
Net assets:			
Invested in capital assets, net of related debt	1,825,685	6,239,332	8,065,017
Restricted for:			
Disaster relief	1,740	-	1,740
Solid waste disposal	151,935	-	151,935
Lighting districts	76,166	-	76,166
Drug forfeiture	8,536	-	8,536
Building department	44,262	-	44,262
Unrestricted	7,331,348	6,187,823	13,519,171
Total net assets	\$ 9,439,672	\$ 12,427,155	\$ 21,866,827

See notes to financial statements.

**Davison Township
Statement of Activities
June 30, 2004**

Functions\Programs	Program revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities:			
General government	\$ 2,649,713	\$ 941,748	\$ 89,307
Legislative	68,760	-	-
Public safety	1,916,399	953,348	99,930
Total governmental activities	4,634,872	1,895,096	189,237
Business-type activities			
Water and sewer	2,700,423	2,733,174	-
Total business-type activities	2,700,423	2,733,174	-
Total primary government	\$ 7,335,295	\$ 4,628,270	\$ 189,237
 General revenues:			
Property taxes			
Unrestricted grants and contributions			
Unrestricted investment earnings			
Unrestricted earnings			
Total general revenues			
 Change in net assets			
Net assets - beginning			
Net assets - ending			

Net (Expense) Revenue and Changes in Net Assets

Capital Grants and Contributions	Primary Government		Total
	Governmental Activities	Business-type Activities	
\$ 575,373	\$ (1,043,285)	\$ -	\$ (1,043,285)
-	(68,760)	-	(68,760)
-	(863,121)	-	(863,121)
575,373	(1,975,166)	-	(1,975,166)
-	-	32,751	32,751
-	-	32,751	32,751
<u>\$ 575,373</u>	<u>(1,975,166)</u>	<u>32,751</u>	<u>(1,942,415)</u>
	1,014,321	-	1,014,321
	1,366,379	-	1,366,379
	93,655	-	93,655
	190,922	153,095	344,017
	<u>2,665,277</u>	<u>153,095</u>	<u>2,818,372</u>
	690,111	185,846	875,957
	<u>8,749,561</u>	<u>12,241,309</u>	<u>20,990,870</u>
	<u>\$ 9,439,672</u>	<u>\$ 12,427,155</u>	<u>\$ 21,866,827</u>

See notes to financial statements.

Fund Financial Statements

**Davison Township
Balance Sheet
Governmental Fund- General Fund
For the Year Ended June 30, 2004**

Assets

Cash and cash equivalents	\$ 3,323,214
Investments	3,438,268
Receivables:	
Accounts	4,787
Special assessments	358,448
Accrued interest	15,155
Due from other funds	393,775
Due from other governments	283,733
	<hr/>
Total assets	\$ 7,817,380
	<hr/>

Liabilities

Accounts payable	\$ 141,128
Deposits	42,265
Due to other funds	20,000
Deferred revenue	358,448
	<hr/>
Total liabilities	561,841
	<hr/>

Fund Balances

Reserved for disaster	1,740
Reserved for solid waste disposal	151,935
Reserved for lighting districts	76,166
Reserved for drug forfeiture	8,536
Reserved for building department	44,262
Unreserved:	
Designated for subsequent year's expenditures	380,456
Undesignated	6,592,444
	<hr/>
Total fund balances	7,255,539
	<hr/>
Total liabilities and fund balances	\$ 7,817,380
	<hr/>

See notes to financial statements.

Davison Township
Reconciliation of the Fund Balance as Reported in the
Governmental Balance Sheet to the Statement of Net Assets
to the Statement of Activities
June 30, 2004

Total General Fund fund balance as reported in the Balance Sheet Governmental Fund - General Fund	\$ 7,255,539
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not available to pay for current period expenditures and, therefore, are not recorded in the General Fund	1,825,685
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Long-term special assessments receivable are not available to pay for current period expenditures and, therefore, are deferred in the General Fund	<u>358,448</u>
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Net Assets - Governmental Activities	<u><u>\$ 9,439,672</u></u>
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See notes to financial statements.

Davison Township
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Fund - General Fund
June 30, 2004

Revenues:

Taxes	\$ 1,014,321
Licenses and permits	217,350
Intergovernmental:	
Federal	141,327
State	1,370,027
Local	27,255
Fines	83,598
Charges for services	195,564
Special assessments	1,568,890
Interest	93,655
Miscellaneous	254,549
	<hr/>
Total revenues	4,966,536

Expenditures:

Current:

General government:	
General government	2,024,401
Supervisor	127,839
Clerk	157,246
Treasurer	117,700
Township hall and grounds	238,597
Assessing department	124,138
Legislative:	
Township board	68,760
Public safety:	
Public safety	1,671,226
Building inspection	224,959
	<hr/>
Total expenditures	4,754,866

Excess of revenues over expenditures	211,670
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Fund balance - beginning of year	<hr/> 7,043,869
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Fund balance - end of year	<hr/> <hr/> \$ 7,255,539
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See notes to financial statements.

Davison Township
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Fund - General Fund
to the Statement of Activities
For the Year Ended June 30, 2004

The change in net assets reported for governmental activities in the statement of activities (page 11) is different because:

Net change in fund balance - General Fund (page 14)	\$ 211,670
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	119,992
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>358,449</u>
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Change in net assets of governmental activities (page 11)	<u><u>\$ 690,111</u></u>
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See notes to financial statements.

Davison Township
Statement of Net Assets
Proprietary Fund - Sewer and Water Fund
June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 6,355,766
Receivables:	
Accounts	113,333
Accrued interest	14,835
Water and sewer tap-ins - current	16,108
Unbilled fees receivable	441,134
Due from other funds	<u>16,106</u>

Total current assets	<u>6,957,282</u>
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Noncurrent assets:

Restricted cash and cash equivalents	688,400
Water and sewer tap-ins - noncurrent	107,903
Capital assets-net of accumulated depreciation	<u>6,859,332</u>

Total noncurrent assets	<u>7,655,635</u>
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Total assets	<u>14,612,917</u>
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Liabilities

Current liabilities:

Accounts payable	12,060
Deposits	1,656
Due to other funds	409,881
Due to other governments	344,678
Long-term debt - current	<u>155,000</u>

Total current liabilities	<u>923,275</u>
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Noncurrent liabilities:

Contractor's advances	797,487
Long-term debt	<u>465,000</u>

Total noncurrent liabilities	<u>1,262,487</u>
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Total liabilities	<u>2,185,762</u>
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Net Assets

Invested in capital assets, net of related debt	6,239,332
Unrestricted	<u>6,187,823</u>

Total net assets	<u><u>\$ 12,427,155</u></u>
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See notes to financial statements.

Davison Township
Statement of Revenues, Expenses,
and Changes in Net Assets
Proprietary Fund - Sewer and Water Fund
For the Year Ended June 30, 2004

Operating revenues:	
Charges for services	\$ 2,298,534
Water meters	12,292
Miscellaneous	<u>16,675</u>
Total operating revenues	<u>2,327,501</u>
Operating expenses:	
Personnel services	407,081
Sewer and water usage and billing fees	1,794,359
Insurance	1,500
Heat, light, and power	102,815
Depreciation	341,902
Miscellaneous	<u>15,220</u>
Total operating expenses	<u>2,662,877</u>
Operating loss	<u>(335,376)</u>
Nonoperating revenues (expenses):	
Tap in fees	405,673
Interest income	153,095
Interest expense and fiscal charges	<u>(37,546)</u>
Total non-operating revenues	<u>521,222</u>
Net income	185,846
Net assets - beginning of year	<u>12,241,309</u>
Net assets - end of year	<u><u>\$ 12,427,155</u></u>

See notes to financial statements.

Davison Township
Statement of Cash Flows
Propriety Fund - Sewer and Water Fund
For the Year Ended June 30, 2004

Cash flows from operating activities:

Cash received from customers	\$ 2,272,398
Cash payments to suppliers and employees	<u>(2,268,104)</u>
Net cash provided by operating activities	<u>4,294</u>

Cash flows from investing activities:

Interest on tap-ins	<u>146,418</u>
Net cash provided by investing activities	<u>146,418</u>

Cash flows from capital and related financing activities:

Payments on long term debt	(212,052)
Interest expense and fiscal charges	(37,546)
Proceeds from construction advances	(58,410)
Purchase of capital assets	(172,329)
Payments received on tap-ins	<u>424,751</u>

Net cash used in capital and related financing activities	<u>(55,586)</u>
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Net increase in cash and cash equivalents	95,126
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Cash and cash equivalents - beginning of the year	<u>6,949,040</u>
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Cash and cash equivalents - end of the year	<u><u>\$ 7,044,166</u></u>
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Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (335,376)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	341,902
Change in assets and liabilities:	
Increase in accounts receivable	(18,689)
Increase in unbilled receivable	(36,414)
Increase in due from other funds	(16,106)
Decrease in accounts payable	(4,320)
Increase in due to other funds	45,174
Increase in due to other governments	<u>28,123</u>

Net cash provided by operating activities	<u><u>\$ 4,294</u></u>
-------------------------------------------	------------------------

Non-cash transaction - Fixed assets in the amount of \$287,000 were constructed by a developer under a contractor advance agreement.

See notes to financial statements.

**Davison Township
Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2004**

	Current Tax Fund	General Agency	Totals
Assets			
Cash and cash equivalents	\$ 6,416	\$ -	\$ 6,416
Due from other funds	-	20,000	20,000
Total assets	<u>\$ 6,416</u>	<u>\$ 20,000</u>	<u>\$ 26,416</u>
Liabilities			
Deposits	\$ -	\$ 20,000	\$ 20,000
Due to other funds	6,416	-	6,416
Total liabilities	<u>\$ 6,416</u>	<u>\$ 20,000</u>	<u>\$ 26,416</u>

See notes to financial statements.

Notes to Basic Financial Statements

Davison Township
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies

A. Financial reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of Davison Township, Michigan (the primary government) and its component units. Component units are legally separate entities for which the Township is considered to be financially accountable. The Township had no component units at June 30, 2004.

The following organizations are not considered component units of Davison Township and are excluded from the accompanying financial statements for the reasons stated.

Davison Richfield Area Fire Authority and Davison Richfield Senior Citizens Authority:

- Serve several communities outside of Davison Township.
- Are legally organized as joint ventures with Davison Township, the City of Davison, and Richfield Township and are financed primarily through contributions from the above municipalities.

The Davison-Richfield Area Fire Authority and the Davison Senior Citizens Authority have June 30 year-ends. Audited financial statements of the authorities for the year ended June 30, 2004, are available for public inspection at authority headquarters.

B. Government-wide and fund financial statements

During the year ended June 30, 2004, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The new standard requires government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

B. Government-wide and fund financial statements – (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, state revenue sharing, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The Water Supply and Sewer Disposal System fund is maintained for the operations of the water distribution system and sewage pumping and collection systems.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Additionally, the government reports the following fund types:

Agency Funds account for assets held by the Township as an agent for individuals, private organizations and other governments. Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits

Cash deposits are carried at cost consisting of checking accounts, certificates of deposits, and other readily usable cash funds. The carrying value of deposits is separately displayed on the balance sheet as "cash and cash equivalents." For purpose of the Water and Sewer Fund Statement of Cash Flows, a cash and cash equivalent is defined as any liquid investment with a maturity of ninety days or less at the time of purchase.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

2. Investments

Investments for the Township are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balance between funds are reported as “due to/from other funds”, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade, notes, contracts, and property tax receivables are shown net of an estimated allowance for uncollectibles.

4. Restricted assets

Restricted assets in the Sewer and Water Enterprise fund consist of monies held for payment of long-term debt.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2004. Prior to the implementation of GASB No. 34, records on these assets were not required to be maintained. The Township is not required to retroactively determine costs and accumulated depreciation for infrastructure assets constructed prior to July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**Davison Township
Notes to Basic Financial Statements
June 30, 2004**

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

5. Capital assets – (continued)

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39 years
Building improvements	5-39 years
Vehicles	5 years
Office equipment	5-7 years
Computer equipment	5 years

6. Accumulated unpaid sick and vacation pay

Accumulated unpaid sick and vacation pay are not accrued by the Township. Substantially all Township employees are paid for unused sick and vacation days annually.

7. Long-term obligations

In the government-wide financial statements, and in the water and sewer enterprise fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity. Also, bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the general fund recognizes the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Property tax

Property taxes attach as an enforceable lien on property as of December 1. Taxes are also levied on December 1, and are payable without penalty through February 28. The Township bills and collects its own property taxes and also collects taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. Township property tax revenues are recognized when levied to the extent that they are measurable and available in accordance with accounting standards. For the year ended June 30, 2004, the Township levied .8907 mills for general operating costs, and 1.461 mills for police services. The millage for police services was renewed May 15, 2001 for a period of 10 years, 2001 to 2010, at 1.5 mills.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

II. Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 249,682
Depreciation expense	<u>(129,690)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 119,992</u></u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund. Informational summaries of projected revenues and expenditures are provided for all other Township funds.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted on a departmental (activity) basis for the General Fund through passage of a resolution and in accordance with Public Act 621 of 1978 of the State of Michigan.
4. The Supervisor or his designee is authorized to transfer budgeted amounts within General Fund departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Budget appropriations lapse at year-end except for approved contracts and certain federal grants, which are appropriated on a contract (grant) length basis.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

III. Stewardship, compliance, and accountability – (continued)

A. Budgetary information – (continued)

8. The original budget was amended during the year in accordance with Township ordinance and applicable state laws.

B. Excess of expenditures over appropriations

The following departments incurred expenditures in excess of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	Actual over Final <u>Budget</u>
Supervisor	\$126,507	\$127,839	\$ 1,332

IV. Detailed notes on all funds

A. Deposits and investments

The Township's cash and cash equivalents consist of checking accounts and certificates of deposit. At year-end, the carrying amount of the Township's deposits was \$8,517,970 excluding petty cash of \$400, and the bank balance was \$8,518,017. Of the bank balance, \$181,623 was covered by federal depository insurance, and the remaining balance was neither insured nor collateralized. Certificates of deposit represented \$8,456,393 of the carrying amount. Certificate of deposits in the amount of \$3,438,268 are recorded as an investment in the financial statements due to a maturity of greater than three months.

At year end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$3,323,214	\$6,355,766	\$ 6,416	\$ 9,685,396
Restricted cash and cash equivalents	-	688,400	-	688,400
Investments	3,438,268	-	-	3,438,268
Total	<u>\$6,761,482</u>	<u>\$7,044,166</u>	<u>\$ 6,416</u>	<u>\$13,812,064</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposits)	\$ 8,517,970
Investments in money market and sweep accounts	5,293,694
Petty cash and cash on hand	<u>400</u>
Total	<u>\$13,812,064</u>

Davison Township
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

At year end, the City's categorized investment balances were as follows:

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase agreement (Checking/sweep account)	\$ -0-	\$5,293,694	\$ -0-	\$5,293,694	\$5,293,694

The Township has adopted an investment policy that permits investing in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions with offices in the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments. The Township Board has approved the following depositories for Township use; Citizens Bank, Bank One, Republic Bank, and Davison State Bank. The Township's investment policy conforms with State statutes.

The Township's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: Category 1 includes investments that are insured or registered, or for which securities are held by the Township or its custodial agent in the Township's name; Category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the Township's name; and Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the Township's name.

B. Receivables

Receivables as of year end for the Township's General fund and Sewer and Water Enterprise fund in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Sewer and</u>
	<u>Fund</u>	<u>Water Fund</u>
Governmental activities:		
Receivables:		
Interest and dividends	\$ 15,155	\$ 14,835
Accounts	4,787	554,467
Special assessment	358,448	-
Tap-ins	-	124,011
Intergovernmental	283,733	-
Gross receivables	662,123	693,313
Less: allowance for uncollectibles	-	-
Net total receivables	<u>\$662,123</u>	<u>\$693,313</u>

Davison Township
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

B. Receivables – (continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (general fund)	<u>\$358,448</u>	<u>\$ -0-</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 836,150	\$ 15,000	\$ -	\$ 851,150
Capital assets, being depreciated:				
Buildings and improvements	962,110	83,797	-	1,045,907
Improvements other than buildings	109,484	81,504	-	190,988
Furniture and equipment	661,791	69,381	-	731,172
Total capital assets being depreciated	1,733,385	234,682	-	1,968,067
Less accumulated depreciation for:				
Buildings	(479,583)	(27,790)	-	(507,373)
Improvements other than buildings	(57,749)	(11,007)	-	(68,756)
Furniture and equipment	(326,510)	(90,893)	-	(417,403)
Total accumulated depreciation	(863,842)	(129,690)	-	(993,532)
Total capital assets, being depreciated, net	869,543	104,992	-	974,535
Governmental activities capital assets, net	<u>\$1,705,693</u>	<u>\$ 119,992</u>	<u>\$ -0-</u>	<u>\$1,825,685</u>
Business-type activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 110,417	\$ -	\$ -	\$ 110,417
Investment in sewer and water system	14,354,113	417,082	-	14,771,195
Furniture and equipment	69,835	42,247	-	112,082
Total capital assets, being depreciated	14,534,365	459,329	-	14,993,694

Davison Township
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities: – (continued)				
Less accumulated depreciation for:				
Buildings and improvements	(60,131)	(2,399)	-	(62,530)
Investment in sewer and water system	(7,681,550)	(330,106)	-	(8,011,656)
Furniture and equipment	(50,779)	(9,397)	-	(60,176)
Total accumulated depreciation	(7,792,460)	(341,902)	-	(8,134,362)
Total capital assets, being depreciated, net	6,741,905	117,427	-	6,859,332
Business-type activities capital assets, net	<u>\$6,741,905</u>	<u>\$ 117,427</u>	<u>\$ -0-</u>	<u>\$ 6,859,332</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

 General government

\$ 67,597

 Public safety

62,093

Total depreciation expense – governmental activities

\$129,690

Business-type activities:

 Water and sewer

\$341,902

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	<u>\$393,775</u>

E. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

E. Long-term debt – (continued)

The following is a summary of Business Type long-term debt transactions of the Township for the year ended June 30, 2004:

	<u>Contracts Payable</u>
Business type activities:	
Long-term debt payable at July 1, 2003	\$ 832,052
Principal payments made	<u>(212,052)</u>
Total business type activities long-term debt at June 30, 2004	<u>\$ 620,000</u>

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2003</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2004</u>	<u>Due within One Year</u>
Business - Type Activities:						
Enterprise Funds:						
Sanitary Sewer District #1 Township Lateral	2008	5.0	\$ 200,000	\$ 40,000	\$160,000	\$ 40,000
Sanitary Sewer District #1 Davison Township Sub-trunk	2008	4.0-4.9	500,000	100,000	400,000	100,000
Genesee County Water Supply System #2 Series 1	2008	5.0	75,000	15,000	60,000	15,000
Sewer Main Interceptor	N/A	2.5-3.8	<u>57,052</u>	<u>57,052</u>	-	-
Total Business – Type Activities			<u>\$832,052</u>	<u>\$212,052</u>	<u>\$620,000</u>	<u>\$155,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$155,000	\$ 27,900
2006	155,000	20,250
2007	155,000	13,500
2008	<u>155,000</u>	<u>6,750</u>
Total	<u>\$620,000</u>	<u>\$ 68,400</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10% of the assessed real and personal property in the Township. As of June 30, 2004, Davison Township has not incurred any indebtedness, which would be limited under Act 359. The Township's existing general long-term obligation bonds and other debt are specifically exempted from consideration in the 10% limit computation.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

E. Long-term debt – (continued)

Deposits payable:

A \$20,000 cash bond was received from Cardinal Industries in June 1987 to be used to maintain a holding pond should Cardinal Industries (or a later owner) default on the maintenance of the holding pond. The holding pond was required before Cardinal Industries could construct a modular apartment complex. The bond would be refunded if the holding pond was no longer needed due to the construction of drains in the area in which the modular apartment complex is located. The cash bond was invested and, per the agreement with Cardinal Industries, the Township General Fund keeps all interest earned on the investment. The deposit is recorded as a liability in the general agency fund.

The Township has also received deposits from other developers to ensure completion of various developments within the township. These other deposits held by the General Fund and the Water and Sewer Enterprise equal \$43,921.

V. Joint ventures

1. In September 1979, Davison Township entered into a joint venture with the City of Davison to create a Senior Citizen's Authority. Richfield Township entered the joint venture effective July 1, 1996. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven-member board appointed by the governing bodies of the City and Townships. The agreement provides that the allocation will be 1/3 of the net expenses split equally between the three municipalities, with the exception of rental income and related expenses for a prior senior center location still owned by the Authority, which is applied against the City of Davison and Davison Township's portion of expenses only. All parties have contributed to the cost of the current activity center and share in its ownership on a percentage basis. All revenues from the current center are shared evenly. Both the old and current centers were constructed with federal grant dollars. In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2004, the Township's contribution to the Senior Authority was \$30,172. At June 30, 2004, the Township had a receivable of \$19,261 from the Authority for cash advances to meet operating needs.

The majority of the Senior Citizens Authority's capital assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency. The Township's equity interest would only be a one-third share in those assets not purchased with federal funds.

Audited financial statements are available for public inspection at authority headquarters.

2. In January 1972, Davison Township entered into a joint venture with the City of Davison and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven-member board appointed by the governing bodies of the city and townships. The agreement calls for each municipality to pay for costs of the Authority by a charge for each fire run to a point within its jurisdictional boundary.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

V. Joint ventures – (continued)

2. (continued)

During the year ended June 30, 2004, the Township was billed \$329,627 by the Authority. At year end, the Township owed \$103,434 to the Authority for fire run services.

The Davison Township's interest in the Authority's net assets as of June 30, 2004, was approximately \$852,000.

VI. Other information

1. **Pension benefit plan**

The Township has two separate pension plans, one for all union police officers and one for all other Township employees. Benefit provisions and contribution obligations have been established by the Township Board.

a. Full-time employees pension plan:

The Township has a defined contribution plan which covers all full-time employees (excluding all union police officers) over the age of eighteen administered by Manulife. The pension will be that amount which can be purchased by a contribution equal to 15% of an employee's effective annual compensation not including overtime and cost-of-living allowances. The Township will contribute 2/3 of the premium, and the employee will contribute 1/3 of the premium. An employee may make an additional voluntary contribution of up to 10% of his annual compensation. Payroll costs of all employees and plan participants amounted to \$1,757,635 and \$922,390, respectively. During the current year, the General Fund contributed the Township's portion of the pension cost, amounting to \$92,239 (10% of covered payroll). Employees made required and voluntary contributions of \$53,551 to the plan during the current year, which equals 6% of payroll costs of plan participants. It is the policy of the Township to pay the pension costs as accrued.

b. Union police officers' pension plan:

(1) Plan description:

The Township police officers participate in the Michigan Municipal Employees Retirement System (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole.

Police officers are eligible for full retirement benefits upon completion of 25 years of service, at age 50 or age 60 with six years service. Straight life pension for police officers is calculated as follows: credited service at time of termination multiplied by 2.5% of the member's final average compensation (3 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2003, the date of the latest actuarial valuation, is comprised of 12 active members and 3 retirees. There are no inactive vested members.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

VI. Other information – (continued)

1. Pension benefit plan – (continued)

b. Union police officers' pension plan: - (continued)

(2) Funding policy:

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Police employees are required to deposit 5.00% of all monetary compensation, including overtime. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate was 11.28% of annual covered payroll for police.

(3) Annual pension costs

Two year trend information regarding the annual pension costs, percentage of APC contributed, and net pension obligation are summarized as follows:

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation at June 30</u>
12/31/02	12/31/02	\$ 46,720	100.0%	\$ -
12/31/03	12/31/03	60,723	100.0	-

c. Post employment benefits other than pension:

The Township provides health benefits to certain employees after they retire or leave office. The ordinance provides that health, medical, and dental care benefits will be provided to eligible retirees if similar benefits are not available to the retiree. All employees and elected or appointed officials, except for those covered under a bargaining unit, age 53 or older with 20 years of continuous service are eligible.

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, 9 retirees were eligible to receive these benefits. For the year, \$66,909 was expended in the General Fund to provide these benefits.

VII. Summary disclosure of contingent liabilities

A. Contingent liabilities:

The Township participates in the Department of Housing and Urban Development Community Block Grant Program. This program is subject to compliance audit by the granting agency. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

VII. Summary disclosure of contingent liabilities – (continued)

B. Tap-in fees advanced from developers:

The Township has a construction advance liability for monies advanced by developers for construction of water or sewer lines benefiting their properties. A liability in the amount of \$797,487 exists at June 30, 2004. The tap-in fee, which would normally be charged to the contractor for projects serviced, is applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area and 75% of the tap-in fee charged to anyone who taps into the constructed line outside of the stated development area will be applied against this amount advanced and paid back to the developer. Payments based on the current activity are remitted to the developer annually. After twenty or thirty years, the developers will not be entitled to any further use of their advance regardless of whether or not they have used the full amount. Developers' interests in the various tap-in contracts still open at June 30, 2004 will expire during the period of March 2013 to February 10, 2023. At the expiration date of the agreement, any remaining construction advance liability will be reclassified to net investment in capital assets.

VIII. Segment information for Enterprise Funds

The Township maintains an Enterprise Fund which provides water and sewer services. Segment information for the year ended June 30, 2004, is as follows:

	<u>Water</u>	<u>Sewer</u>	Total Enterprise <u>Fund</u>
Operating revenues	\$1,156,049	\$1,171,452	\$ 2,327,501
Depreciation	127,948	213,954	341,902
Operating loss	(153,009)	(182,367)	(335,376)
Non-operating revenues	212,046	309,176	521,222
Net income	59,037	126,809	185,846
Property, plant, and equipment:			
Additions	260,310	199,020	459,330
Current assets	3,385,532	3,571,750	6,957,282
Current liabilities	242,618	680,657	923,275
Net working capital	3,142,914	2,891,093	6,034,007
Other liabilities	653,987	143,500	797,487
Retained earnings	6,168,102	6,259,053	12,427,155
Total assets	7,136,389	7,476,528	14,612,917
Total bonds outstanding	60,000	560,000	620,000

IX. Risk management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries. The Township has purchased commercial insurance for coverage of all claims except employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Township pays unemployment claims on a reimbursement basis.

Davison Township
Notes to Basic Financial Statements
June 30, 2004

X. Building department revenues and expenses

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The Act allows for monitoring these funds in a separate activity center within the General Fund and reserving General Fund fund balance for the excess of building departments revenues over expenditures since adoption of the Act. The activity related to construction code activity for the year ended June 30, 2004 and General Fund reserved fund balance at year end is as follows:

Beginning reserved fund balance	<u>\$ 40,850</u>
Total revenues	228,371
Less: expenditures	<u>224,959</u>
Excess revenues over expenditures	<u>3,412</u>
Ending reserved fund balance	<u><u>\$ 44,262</u></u>

Fund balance of \$44,262 is shown reserved in the General Fund at June 30, 2004.

Required Supplementary Information

**Davison Township
Required Supplementary Information
Analysis of Retirement System Funding Progress**

**Pension Plans
Schedule of Funding Progress**

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b) (1)</u>	<u>Unfunded (Over funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
<u>Union Police Officer's Pension Plan:</u>							
12/31/02	12/31/02	\$1,199,805	\$1,340,882	\$(141,077)	89.5%	\$607,456	23.2%
12/31/03	12/31/03	1,399,200	1,820,853	(421,653)	77.0	553,621	76.0

**Pension Plan
Schedules of Employer Contributions**

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percent Contributed</u>
<u>Union Police Officers Pension Plan:</u>			
12/31/02	12/31/02	\$ 46,720	100.0%
12/31/03	12/31/03	60,723	100.0

Combining Fund Statements

**Davison Township
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final Budget- Favorable (Unfavorable)
Revenues:				
Taxes	\$ 1,021,603	\$ 1,021,603	\$ 1,014,321	\$ (7,282)
Licenses and permits	160,150	160,150	217,350	57,200
Intergovernmental:				
Federal	74,000	74,000	141,327	67,327
State	1,116,700	1,116,700	1,370,027	253,327
Local	52,600	52,600	27,255	(25,345)
Fines	75,000	75,000	83,598	8,598
Special assessments	1,416,673	1,416,673	1,568,890	152,217
Charges for services	183,532	183,532	195,564	12,032
Interest	34,000	34,000	93,655	59,655
Miscellaneous	157,750	157,750	254,549	96,799
Total revenues	4,292,008	4,292,008	4,966,536	674,528
Expenditures:				
Current:				
General government:				
General government	2,304,198	2,304,198	2,024,401	279,797
Supervisor	123,507	126,507	127,839	(1,332)
Clerk	164,462	164,462	157,246	7,216
Treasurer	129,448	129,448	117,700	11,748
Township hall and grounds	258,350	258,350	238,597	19,753
Assessing department	130,115	130,115	124,138	5,977
Legislative:				
Township board	60,731	69,731	68,760	971
Public safety:				
Police and fire	1,812,220	1,812,220	1,671,226	140,994
Building inspection	229,008	229,008	224,959	4,049
Total expenditures	5,212,039	5,224,039	4,754,866	469,173
Excess (deficiency) of revenues over expenditures	(920,031)	(932,031)	211,670	1,143,701
Fund balance - beginning of year	7,043,869	7,043,869	7,043,869	-
Fund balance - end of year	\$ 6,123,838	\$ 6,111,838	\$ 7,255,539	\$ 1,143,701

August 18, 2004

Members of the Township Board
Davison Township
Genesee County, Michigan

We have audited the financial statements of Davison Township (the Township) for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure Davison Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Davison Township are described in Note 1 to the general purpose financial statements. We noted no transactions entered into by Davison Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. Davison Township did implement GASB 34 for the first time for the year ended June 30, 2004.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Township that

could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We posted audit adjustments related to revenues, receivables, expenditures, accounts payable, and fixed assets that could, in our judgment, either individually or in the aggregate, have a significant effect on Davison Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Internal controls

In planning and performing our audit of the financial statements of Davison Township for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted a certain matters that we consider to be a reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions were noted during the current audit.

Accounting for Special Assessments

During the audit, it was noted that the Township was not maintaining a subsidiary listing of the sidewalk and street improvement special assessments. A schedule of the special assessment receivables for each resident (parcel holder of record) should be maintained showing the original amount of the special assessment, interest accrued, and the dates and amounts of payments paid against the principal. The subsidiary listing should also indicate if the payments were made by cash or check. This schedule should be reconciled to the special assessment receivable recorded on the general ledger on an interim basis and at the end of each fiscal year.

In addition, to ensure that all payments are posted by the Treasurer's office properly, we would recommend that the clerk's office verify that all cash collections on special assessments are properly being applied to the right parcel and deposited into the bank.

Supervisory Review of Journal Entries

During the audit, it was noted that some non-recurring journal entries are being prepared by staff and input directly into the general ledger without supervisory approval. To ensure that errors are not being made, we would recommend that all non-recurring journal entries be reviewed and approved by supervisory personnel prior to input into the general ledger. Management has already implemented supervisory review of journal entries by the clerk.

Lack of Segregation of Duties

During the audit, it was noted that certain clerk staff prepare checks and also have the authority to post journal entries to the general ledger. The same staff person is also responsible for the initial receipt and review of bank statements and cancelled checks received in the mail and the preparation of the bank reconciliations.

These duties result in a lack of segregation of duties which could result in the misappropriation of Township assets. Under the current staffing arrangement, it would be possible for an unethical staff to initiate an improper check disbursement with forged signatures, dispose of the cancelled check evidence when opening the bank statements, and prepare a journal entry to correct the cash on the general ledger.

We wish to make it absolutely clear that we are not suggesting that the any Township employee is misappropriating assets. During the course of our audit, we did not find any indication or evidence that such procedures were resulting in errors or misappropriations. What we are saying is that due to the lack of segregation of duties, there is an inherent limitation in your system of internal accounting control, and we are required to disclose this to you.

Management has already implemented policies to have the bank statements opened and reconciled by staff that do not have access to the general ledger.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by Commission members in the normal course of performing their assigned functions

Members of the Township Board
Davison Township
August 18, 2004
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Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions related to the lack of segregation of journal entries and the accounting for special assessments noted above, are material weaknesses.

We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by the Township's personnel during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,

A handwritten signature in cursive script that reads "BKR Dupuis & Ryden".

Certified Public Accountants

Flint Office